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Celia Nogales
Director - Federal Relations

September 19, 1996

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

RE: **Ex Parte Statement**
Docket 96-45

Dear Mr. Caton:

On September 16, 1996, Dr. Barbara Cherry, Mr. Marvin Bailey, Ms. Kristin Shulman and I met with Joint Board Member, Commissioner Laska Schoenfelder, and members of her staff, Karen Cremer and Greg Rislov, to discuss universal service and education issues as they relate to Ameritech's position in the above referenced proceeding. The attached material was used as part of the discussion.

Sincerely,

Celia Nogales

Attachment
cc: L. Schoenfelder
K. Cremer
G. Rislov

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List A B C D E

9/15/96

Universal Service
Positioning for the New Environment

Before the Telecommunications Act of 1996 and the FCC's Interconnection Order:

With limited local competition by facilities based providers, maintaining low monthly access line rates subsidized by contribution from intraLATA toll, vertical service and interexchange access service margins was a practical solution that supported Universal Service

After the Telecommunications Act and the FCC's Interconnection Order:

Past decisions must be reconsidered and modified to reflect the new environment which provides for new market participants to provide service through resale of ILEC services or through unbundled network elements without making investment in the nations telecommunications infrastructure.

Competition for local and toll services may take many avenues, each avenue reduces or eliminates the contribution available to subsidize low local access line rates.

- **IXC provision of intraLATA toll service through deployment of intraLATA 1+ dialing**

  Contribution no longer recovered from minutes carried by other providers

  Pressure to reduce prices to cost as competition increases

- **Carriers offering local service through unbundled network elements**

  Carriers will likely use unbundled network elements to serve high volume customers

  No contribution towards subsidizing low local access line rates included in TELRIC for unbundled elements

  High margin services will be purchased at TELRIC from the ILEC eliminating source of today's contribution and create tremendous downward pressure on existing retail rates of ILEC services priced above TELRIC

- **Carriers offering local service through resale of ILEC services at wholesale rates**

  With no investment in infrastructure, competitors can now reach all customers

  Local monthly line rates that are below cost must be provided to resellers at wholesale rates - no contribution towards subsidizing low local access line rates

  Competitors will likely use resale to serve low volume customers, little or no significant contribution from other resold services that are retailed above cost

The Joint Board and the FCC Must Create the Right Incentives for ILEC Shareholders to Invest in Domestic Telecommunications Infrastructure

- LECs have investment choices

- Each network component must be able to independently recover its costs without regulatory constraints

- Tremendous business risk is created if investments are not allowed the opportunity to provide shareholder value

In Particular, the Joint Board and The FCC Must Work to Make Local Monthly Access Line Rates Fully Compensatory

An opportunity exists ***now*** for the Joint Board to proactively deal with the subsidies and create an environment where all market participants face equal challenges

TELRIC must be the cost standard for Monthly Access Lines because of the availability of equivalent unbundled network components

State Commissions

- Each state Commission must determine, by geographic area, the TELRIC for basic monthly access (unbundled loop and switch port)—plus costs for operating the retail business

- Each state Commission must allow full recovery of the intrastate allocation of TELRIC in monthly access line rates through:

    Establishing geographic deaveraged pricing zones consistent with those established for unbundled network elements

    Rebalancing rates to eliminate urban to rural and business to residence subsidy flows

Full compensation of TELRIC should only be limited by consumer affordability

Federal Communications Commission

- The FCC must allow full recovery of the interstate allocation of TELRIC via the Subscriber Line Charge (SLC), continued support from IXCs or the Universal Service Fund. And, geographically deaverage the SLC consistent with the monthly access line and unbundled network element zones

To the extent that the TELRIC for the monthly access line is not allowed full recovery through the monthly access line rate and the SLC, Universal Service funding mechanisms must be established at the State and Federal levels

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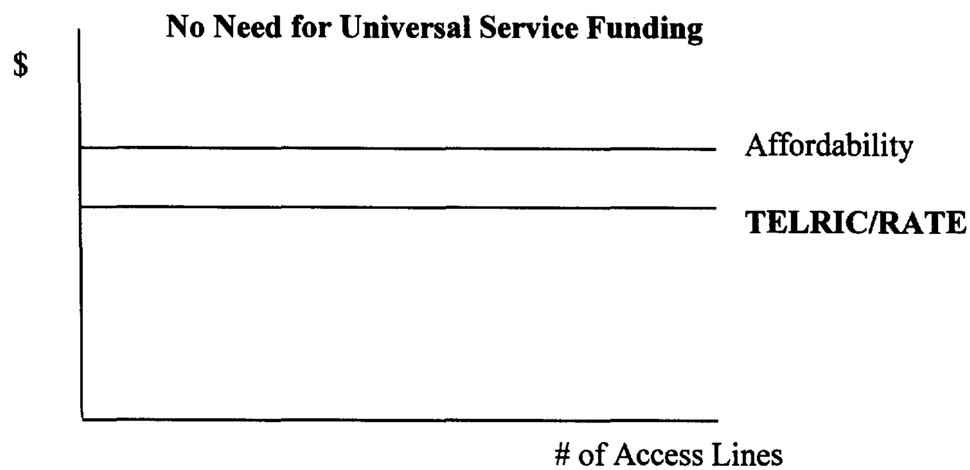
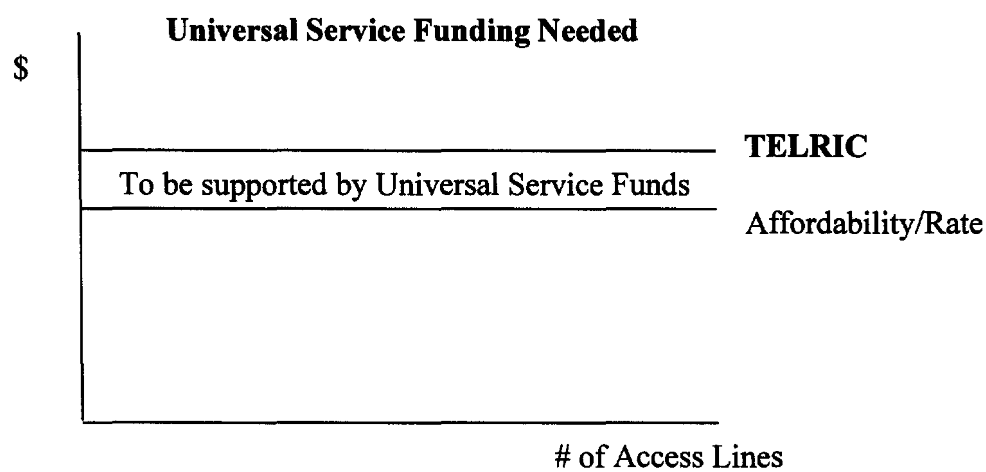
Rate caps on the SLC or the monthly access line should only occur when it is determined that affordability is below the TELRIC





If a carrier elects to offer monthly access line service at rates below cost and below the allowable level, there should be no universal service funding available

When monthly access line rates are kept below TELRIC because of regulatory constraints, competitors providing service through unbundled network elements or deployment of their own facilities must receive the same level of funding as the ILEC. Without equivalent funding, rates set below cost by regulators create artificial entry barriers for new market participants.